



OFFICE OF THE ATTORNEY GENERAL
STATE OF ARIZONA

TERRY GODDARD
ATTORNEY GENERAL

July 14, 2004

The Honorable Timothy J. Muris
Chairman, Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Mr. Muris:

Thank you for your update on the Federal Trade Commission's Gasoline Price Monitoring Project (GPMP). Unfortunately, your letter indicates you were not aware of the fact that my Office has been participating in this project during the past year. We have sent your Office hundreds of Arizona consumer gasoline price complaints, formatted to your specifications. I am enclosing the third batch with this letter.

I am pleased to know that the FTC is continuing the GPMP. In light of the price spikes suffered by Arizona consumers during the 2003 Tucson-Phoenix pipeline rupture, as well as the price spikes that occurred in spring 2003 and 2004 during the transition period from the winter to summer gasoline blends, I am surprised there has been no FTC conversation with my Office about such significant variations in Arizona gas prices. I am therefore specifically requesting an analysis of Arizona's gasoline prices by your Agency.

Your letter mentions, but does not elaborate on, "natural explanation(s)" for such spikes. It concerns me that the FTC did not investigate the extreme price spikes and shortages in Arizona. Apparently, once your staff heard there was a pipeline rupture last summer, or that there was a change in blend during spikes in spring 2003 and 2004, they did no further investigation.

Neither the pipeline rupture nor the change from one gasoline blend to another proves that the market was not manipulated during these time periods. To the contrary, determining that there may be a "natural explanation" for price increases is only the first step in evaluating whether there is price manipulation.

For example, when the Tucson-Phoenix pipeline ruptured in 2003, I would like a definitive answer as to whether and how much the oil industry profited from the resulting price spikes. Why did the gasoline prices in Tucson rise, when presumably Tucson should have been flooded with excess gasoline? Did any gasoline distributors purposefully withhold gasoline during the Phoenix shortages to benefit from escalating prices? My Office has made some inquiries in these areas and obtained much useful information. Collaboration and resource sharing with your Agency would be highly beneficial.

I will continue to investigate the possibility of anti-competitive conduct in the Arizona gasoline market. However, these are regional issues. Because the gasoline industry is interconnected, I believe federal-state cooperation is warranted and necessary. I am encouraged by General Counsel William Kovacic's recent announcement that the FTC is investigating the Shell Bakersfield refinery closure. I believe more such investigations are required.

Six other western states Attorneys General (Alaska, California, Hawaii, Nevada, Oregon and Washington) and I have agreed to form a task force to address gasoline issues. I believe the federal government should be part of this effort. I am meeting with Department of Energy Assistant Secretary Mark Maddox and Deputy Assistant Secretary Howard Gruenstecht on July 23, 2004 to discuss gasoline supply and pricing issues in the western states. I would also be interested in meeting with you to discuss what we can cooperatively do to investigate and address the gasoline market in Arizona and other western states.

Unreasonably high gasoline prices and unreliable supply continue to plague Arizona consumers and hurt our economy. I hope that we can work together to evaluate whether there is any illegal market manipulation or other conduct that warrants prosecution.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry Goddard". The signature is fluid and cursive, with the first name "Terry" and last name "Goddard" clearly distinguishable.

Terry Goddard
Arizona Attorney General

Enclosures

cc: The Honorable Mark Bennett, Hawaii
The Honorable Brian Sandoval, Nevada
The Honorable Christine O. Gregoire, Washington
The Honorable Greg Renkes, Alaska
The Honorable Bill Lockyer, California
The Honorable Hardy Myers, Oregon